

Agenda Date: September 28, 2005
Item Numbers: A1 and A2

Dockets: UG-051297 and UG-051298
Company Name: Puget Sound Energy

Staff: James M. Russell, Energy Accounting Manager
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Recommendation:

Allow the tariff filings made by Puget Sound Energy (PSE) in Dockets UG-051297 and UG-051298 to become effective October 1, 2005, as filed.

Background:

On August 29, 2005, Puget Sound Energy (PSE or Company) filed revisions to its Purchase Gas Adjustment and deferred gas cost amortization tariffs in Dockets UG-51297 and UG-051298, respectively. The net effect of the proposed filings is an increase in annual gas sales revenues of approximately \$121,600,000 (14.7%).

The Purchased Gas Adjustment (PGA) and deferred gas cost amortization mechanisms are designed to pass through to customers the utility's actual costs of natural gas (subject to audit and verification of portfolio optimization). The PGA establishes for the upcoming year a projection of the utility's gas costs. The difference between the projected cost and the actual cost is deferred and ultimately amortized back to customers with interest, whether it be a refund or surcharge balance.

Puget Sound Energy serves approximately 683,000 gas customers in Western Washington. The Commission has received 9 letters opposed to the purchased gas cost increases associated with these filings.

Purchase Gas Adjustment (PGA, Docket UG-051297)

Docket UG-051297 is PSE's PGA filing. PSE filed tariff sheets to reflect a total average cost of gas of \$.75330/therm (\$.67544 commodity + \$.07786 demand) resulting in an increase in annual gas sales revenues of approximately \$97.5 million (11.8%) related to prospective natural gas purchases for the period October 2005 through September 2006. All of the proposed increase is associated with higher costs for natural gas supplies

(commodity costs). Currently embedded in PSE's natural gas retail rates is a total average cost of gas of \$.64150 (\$.56196 commodity + \$.07954 demand).

PSE's projected commodity cost of gas was calculated based on a portfolio optimization model run of fixed and variable priced contracted supplies and utilization of storage gas at Jackson Prairie and Clay Basin. Variable priced (market based) contracts were priced in the model using a 90-day average of forward market prices at the time the filing was prepared. PSE's gas supply portfolio for the coming year is approximately 75% price hedged.

Current natural gas market fundamentals:

Attached is a graph of monthly market prices for natural gas supplies versus PSE's historic, and proposed, average commodity cost of gas. Last Monday, September 19th, average daily market prices for gas out of the Rockies and Sumas were approximately \$10.20/Mmbtu (\$1.02/therm), with the 12-month forward strip around \$10.40/Mmbtu. The main drivers of these very high natural gas spot and forward market prices are world crude oil prices and hurricane activity on the East Coast.

Gas Cost Deferral Amortization (Docket UG-051298)

Docket UG-051298 is PSE's deferred gas cost amortization filing. Currently, PSE has a balance of approximately \$32.6 million in deferred gas costs that it is proposing to recover over the next twelve months. This under-recovery resulted mainly from higher commodity gas supply costs PSE incurred last year. PSE's current deferred gas cost amortization rates were designed to collect approximately \$8.5 million annually. The proposed rates are designed to collect the approximate \$32.6 million under-recovery over the next 12 months. The resulting increase in the surcharge rates results in a net increase in annual revenues of approximately \$24.1 million, or an additional 2.9% increase in customer's bills.

Summary:

The impact of the two filings on a monthly bill for a residential customer with consumption of 70 therms will be an increase of \$9.87 (13.9%).

The net effect of the PGA and gas cost deferral amortization (surcharge) filings on the Company's rates and annual Washington revenues is as follows:

	PGA Per Therm <u>Change</u>	Amort. Per Therm <u>Change</u>	Total Annual Revenue <u>Change</u>	Percent <u>Change</u>
Residential	\$.11290	\$.02844	\$ 74,720,000	13.9%
Comm. & Ind.	.11392	.02763	36,580,000	15.4%
Interruptible	.11546	.02640	<u>10,300,000</u>	<u>19.1%</u>
Total			\$121,500,000	14.7%

Conclusion:

Given the current and foreseeable natural gas supply market conditions and the recent resulting impact on PSE's deferred gas cost balances, Staff recommends that the tariff sheets filed in Dockets UG-051297 and UG-051298 be allowed to become effective October 1, 2005, as filed.

Attachment